The resulting translation adjustments are included in the "Accumulated other comprehensive loss" section of the Consolidated Balance Sheet. The financial statements of subsidiaries located in countries with highly inflationary economies, if any, are remeasured as if the functional currency were the U.S. dollar; the remeasurement creates translation adjustments that are reflected in "Net income (loss)" in the Consolidated Statement of Operations.

FINANCIAL INSTRUMENTS: From time to time Grace enters into interest rate swap agreements and foreign exchange forward and option contracts to manage exposure to fluctuations in interest and foreign currency exchange rates. Grace does not hold or issue derivative financial instruments for trading purposes. At December 31, 2001, Grace did not hold and had not issued any derivative financial instruments.

Grace adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended) for 2001. SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities in the Consolidated Balance Sheet with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met.

2. CHAPTER 11 RELATED FINANCIAL INFORMATION

As a result of the Filing, Grace's Consolidated Balance Sheet as of December 31, 2001 separately identifies the liabilities that are "subject to compromise" as a result of the Chapter 11 proceedings. In Grace's case, "Liabilities subject to compromise" represent pre-petition liabilities as determined under U.S. generally accepted accounting principles. Changes to the recorded amount of such liabilities will be based on developments in the Chapter 11 Cases and management's assessment of the claim amounts that will ultimately be allowed by the Bankruptcy Court. Changes to pre-petition liabilities subsequent to the Filing Date reflect: 1) cash payments under approved court orders; 2) the accrual of interest on pre-petition debt at the pre-petition contractual rate;
3) accruals for employee-related programs; and 4) changes in estimates related to pre-petition contingent liabilities and assets.

Components of Liabilities subject to compromise are as follows:

(Dollars in millions)	DECEMBER 31, 2001	Filing Date (Unaudited)
Debt, pre-petition plus accrued interest......................	$ 524.5	$ 511.5
Accounts payable........................	31.7	43.0
Income taxes payable....................	216.6	210.1
Asbestos-related liability.............	996.3	1,002.8
Other postretirement benefits	169.1	185.4
Environmental remediation	153.1	164.8
Retained obligations of divested businesses	80.5	75.5
Pension related	74.6	70.8
Other accrued liabilities	67.2	102.1
	$ 2,313.6	$ 2,366.0

Set forth below is a reconciliation of the changes in pre-filing date liability balances for the period from the Filing Date through December 31, 2001.

(Dollars in millions) (Unaudited)	Cumulative Since Filing
Balance, Filing Date..............................	$ 2,366.0
Cash disbursements and/or reclassifications under Bankruptcy Court orders:	
Freight and distribution order...................	(5.6)
Trade accounts payable order.....................	(8.4)
Other court orders including employee wages and benefits, sales and use tax and customer programs................................	(68.2)
Expense/(income) items:	
Interest on pre-petition debt....................	20.9
Current period employment-related accruals......................................	9.4
Environmental accruals...........................	5.8
Interest on income tax contingencies.............	7.7
Balance sheet reclassifications.....................	(4.9)
Balance, end of period............................	$ 2,322.7

Pre-Filing Date liabilities allowable under court orders	$	9.1
Pre-Filing Date liabilities subject to compromise	$	2,313.6

Pre-Filing Date obligations allowable under current court orders and expected to be paid prior to an adopted plan of reorganization are classified as "Liabilities not subject to compromise." Additional liabilities subject to compromise may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

The Debtors recorded Chapter 11 reorganization expenses for 2001 consisting of:

(Dollars in millions)	2001
Legal and financial advisory fees	$ 16.6
Interest income	(0.9)
Chapter 11 reorganization expenses, net	$ 15.7

Pursuant to SOP 90-7, interest income earned on Grace's cash balances must be offset against reorganization expenses. Condensed financial information of the Debtors subsequent to the Filing Date is presented below:

W. R. GRACE & CO. - CHAPTER 11 FILING ENTITIES DEBTOR-IN-POSSESSION STATEMENT OF OPERATIONS (UNAUDITED) DOLLARS IN MILLIONS	APRIL 2, 2001 TO DECEMBER 31, 2001
Net sales, including intercompany	$ 768.7
Other income	42.2
	810.9
Cost of goods, including intercompany, exclusive of depreciation and amortization shown separately below	479.4
Selling, general and administrative expenses	158.5
Research and development expenses	28.5
Depreciation and amortization	44.0
Interest expense and related financing costs	26.9
	737.3
Income before Chapter 11 reorganization expenses, income taxes, and equity in net income of non-filing entities	73.6
Chapter 11 reorganization expenses, net	(12.7)
(Provision for) income taxes	(34.3)
Equity in net income of non-filing entities	37.3
NET INCOME	$ 63.9

W. R. GRACE & CO. - CHAPTER 11 FILING ENTITIES DEBTOR-IN-POSSESSION CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) DOLLARS IN MILLIONS	APRIL 2, 2001 TO DECEMBER 31, 2001
OPERATING ACTIVITIES	
Net income	$ 63.9
Reconciliation to net cash provided by (used for) operating activities:	
Non-cash items, net	67.1
Increase in accounts receivable due to termination of securitization program	(99.7)
Decrease in subordinated interest of accounts receivable sold	34.9
Changes in other assets and liabilities, excluding the effect of businesses acquired/divested	(0.5)
NET CASH PROVIDED BY OPERATING ACTIVITIES	65.7
NET CASH USED FOR INVESTING ACTIVITIES	(20.0)
NET CASH USED FOR FINANCING ACTIVITIES	(16.3)
NET INCREASE IN CASH AND CASH EQUIVALENTS	29.4
Cash and cash equivalents, Filing Date	8.6
Cash and cash equivalents, end of period	$ 38.0

W. R. GRACE & CO. - CHAPTER 11 FILING ENTITIES DEBTOR-IN-POSSESSION BALANCE SHEET (UNAUDITED) DOLLARS IN MILLIONS	DECEMBER 31, 2001
ASSETS	

CURRENT ASSETS	
Cash and cash equivalents	$ 38.0
Notes and accounts receivable, net	128.2
Receivables from non-filing entities, net ..	33.8
Inventories	89.5
Other current assets.......................	78.6
TOTAL CURRENT ASSETS	368.1
Properties and equipment, net..............	384.9
Cash value of life insurance policies, net of policy loans.....................	75.6
Deferred income taxes	502.6
Asbestos-related insurance expected to be realized after one year.................	283.7
Loans receivable from non-filing entities, net	388.0
Investment in non-filing entities	153.5
Other assets	339.6
TOTAL ASSETS	$ 2,496.0

LIABILITIES AND SHAREHOLDERS' EQUITY

(DEFICIT)

LIABILITIES NOT SUBJECT TO COMPROMISE

Current liabilities	$ 94.5
Debt payable after one year	1.6
Other liabilities	228.0
TOTAL LIABILITIES NOT SUBJECT TO COMPROMISE..............................	324.1
LIABILITIES SUBJECT TO COMPROMISE	2,313.6
TOTAL LIABILITIES.......................	2,637.7
SHAREHOLDERS' EQUITY (DEFICIT)	(141.7)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 2,496.0

In addition to Grace's financial reporting obligations as prescribed by the U.S. Securities and Exchange Commission ("SEC"), the Debtors are also required, under the rules and regulations under the Bankruptcy Code, to periodically file certain statements and schedules and a monthly operating report with the Bankruptcy Court. This information is available to the public through the Bankruptcy Court. This information is prepared in a format that may not be comparable to information in Grace's quarterly and annual financial statements as filed with the SEC. The monthly operating reports are not audited, do not purport to represent the financial position or results of operations of Grace on a consolidated basis and should not be relied on for such purposes.

Grace is a defendant in property damage and bodily injury lawsuits relating to previously sold asbestos-containing products. On April 2, 2001, Grace filed voluntary petitions for reorganization under Chapter 11 to use the court-supervised reorganization process to achieve predictability and fairness in the claims settlement process. See Note 1 for further discussion.

As of the Filing Date, Grace was a defendant in 65,656 asbestos-related lawsuits, 16 involving claims for property damage (one of which has since been dismissed), and the remainder involving 129,191 claims for bodily injury. Due to the Filing, holders of asbestos-related claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against the Debtors. Additional asbestos-related claims are expected to be filed as part of the Chapter 11 claims process. Separate creditors' committees representing the interests of property damage and bodily injury claimants have been appointed in the Chapter 11 Cases. Grace's obligations with respect to present and future claims will be determined through proceedings in Delaware bankruptcy court and negotiations with each of the official committees appointed in the Chapter 11 Cases, which is expected to provide the basis for a plan of reorganization.

PROPERTY DAMAGE LITIGATION

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure. Information regarding product identification, the amount of product in the building, the age, type, size and use of the building, the jurisdictional history of prior cases and the court in which the case is pending has provided meaningful guidance as to the range of potential costs. Grace has recorded an accrual for all outstanding property damage cases for which sufficient information is available to form a reasonable estimate of such exposure.

Through December 31, 2001, out of 379 asbestos property damage cases filed, 141 were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in nine cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in seven cases for a total of $60.3 million; 207 property damage cases were settled for a total of $696.8 million; and 15 cases remain outstanding. Grace may receive additional asbestos property damage claims as part of its Chapter 11 proceeding.

Property Damage case activity for 2001 and 2000 was as follows:

PROPERTY DAMAGE CASE ACTIVITY	2001	2000
Cases outstanding, beginning of year	15	11
New cases filed	1	8
Settlements	--	(4)
Dismissals	(1)	--
Judgments	--	--
Cases outstanding, end of year...	15	15

Of the 15 remaining cases, seven relate to a former attic insulation product and eight relate to a number of former asbestos-containing products (two of which also involve such attic insulation product). The attic insulation cases were filed as class action lawsuits in 2000 and 2001 on behalf of owners of homes containing Zonolite attic insulation. These cases seek damages and equitable relief, including the removal, replacement and/or disposal of all such insulation. The plaintiffs assert that this product is in millions of homes throughout the U.S. and that the cost of removal could be several thousand dollars per home. These cases are expected to be heard by the Bankruptcy Court within the next year. While Grace has not completed its investigation of the claims described in these cases, Grace believes that this product was and continues to be safe for its intended purpose and poses little or no threat to human health. At this time, Grace is not able to assess the extent of any possible liability related to this matter.

BODILY INJURY LITIGATION

Bodily injury claims are generally similar to each other (differing primarily in the type of asbestos-related illness allegedly suffered by the plaintiff). However, Grace's estimated liability for such claims has been influenced by numerous variables, including the solvency of other former asbestos producers, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the claims are filed, and the defense and disposition costs associated with these claims. Grace's bodily injury liability reflects management's estimate, as of the Filing Date, of the number and ultimate cost of present and future bodily injury claims expected to be asserted against Grace given demographic assumptions of possible exposure

to asbestos containing products previously manufactured by Grace.

Through the Filing Date, 16,354 asbestos bodily injury lawsuits involving approximately 35,720 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 55,489 lawsuits involving approximately 163,698 claims were disposed of (through settlement and judgments) for a total of $645.6 million.

Bodily injury claim activity for 2001 (through the Filing Date) and 2000 was as follows:

BODILY INJURY CLAIM ACTIVITY	APRIL 2, 2001	December 31, 2000
Claims outstanding, beginning of year	124,907	105,670
New claims	16,411	48,786
Settlements	(11,841)	(26,950)
Dismissals	(286)	(2,598)
Judgments	--	(1)
Claims outstanding, end of period.....................	129,191	124,907

The table above reflects 2001 claims activity through the Filing Date. As a result of the Filing, no additional lawsuits can be filed.

ASBESTOS-RELATED LIABILITY

Since litigation is stayed by the Chapter 11 Cases, ongoing costs are generally limited to claims administration costs and to defense costs incurred in connection with litigation permitted by the Bankruptcy Court. Any other adjustments to the recorded liability will be based on developments in the Chapter 11 Cases. For periods prior to and as of the Filing Date, Grace's estimated property damage and bodily injury liabilities were based on its experience with, and recent trends in, asbestos litigation. Its recorded liabilities covered indemnity and defense costs for pending property damage cases and for pending and projected future bodily injury claims. No change has been made to the pre-filing asbestos-related liability except to record the payment of normal post-filing administrative costs primarily related to claims processing. However, due to the Filing and the uncertainties of asbestos-related litigation, actual amounts could differ materially from the recorded liability. The total asbestos-related liability balances as of December 31, 2001 and 2000 were $996.3 million and $1,105.9 million, respectively. As of December 31, 2001, the asbestos-related liability was included in liabilities subject to compromise.

As a result of the developments discussed in Note 1, Grace's evaluation of its recorded liability for asbestos-related litigation as of December 31, 2000 led to a fourth quarter adjustment of $293.6 million to account for an unexpected increase in the number of claims filed, new risk factors and recent cost experience. Grace adjusted its recorded insurance receivable in the fourth quarter of 2000 by $85.6 million to reflect the additional amounts expected to be recovered in respect of the adjusted asbestos-related liability. The net amount of the adjustments recorded during the fourth quarter of 2000 ($208.0 million after insurance recovery) reflects adverse experience in the latter part of 2000 versus certain underlying assumptions used to estimate Grace's liability for asbestos-related litigation. After the 2000 adjustment, Grace's recorded liability for asbestos-related litigation was $1,105.9 million gross and $733.9 million net of insurance recovery.

ESTIMATED LIABILITY FOR ASBESTOS-RELATED LITIGATION

(Dollars in millions)	2001	2000
Asbestos-related liability expected to be satisfied within one year.............	$ 5.1	$ 178.4
Asbestos-related liability expected to be satisfied after one year..............	991.2	927.5
Total asbestos-related liability	$ 996.3	$ 1,105.9

The current portion of Grace's asbestos-related liability is based on management's estimate as of the respective balance sheet dates of costs expected to be paid within one year.

ASBESTOS INSURANCE

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Grace has settled with and has been paid by all of its primary insurance carriers with respect to both property damage and bodily injury cases and claims. Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. Grace believes that certain of these settlements may cover attic insulation claims as well as other property damage claims. In addition, Grace believes that additional coverage for attic insulation claims may exist under excess insurance policies not subject to settlement agreements. Grace has settled with excess insurance carriers that wrote policies available for bodily injury claims in layers of insurance that Grace believes may be reached based on its current estimates. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

The asbestos-related insurance asset represents amounts expected to be received from carriers under settlement agreements for defense and disposition costs to be paid by Grace. Estimated insurance reimbursements are based on the recorded amount of the liability and are considered by management to be collectible.

Activity in Grace's notes receivable from insurance carriers and asbestos-related insurance receivable during 2001 and 2000 was as follows:

ESTIMATED INSURANCE RECOVERY ON ASBESTOS-RELATED LIABILITIES
(Dollars in millions) 2001 2000

NOTES RECEIVABLE

	2001	2000
Notes receivable from insurance carriers, beginning of year, net of discount of $0.2 (2000 - $0.8)	$ 2.7	$ 5.3
Proceeds received under asbestos-related insurance settlements	(2.9)	(3.2)
Current year amortization of discount.	0.2	0.6
Notes receivable from insurance carriers, end of year, (2000 - net of discount of $0.2)................	--	2.7
INSURANCE RECEIVABLE		
Asbestos-related insurance receivable, beginning of year	369.3	366.1
Proceeds received under asbestos-related insurance settlements	(75.9)	(82.4)
Increase in asbestos-related insurance receivable	--	85.6
Asbestos-related insurance receivable, end of year	293.4	369.3
Total amounts due from insurance carriers...........................	293.4	372.0
Expected to be realized within one year	(9.7)	(83.8)
Expected to be realized after one year	$ 283.7	$ 288.2

4. DISCONTINUED OPERATIONS

CROSS COUNTRY STAFFING

In July 1999, Grace completed the sale of substantially all of its interest in Cross Country Staffing ("CCS"), a provider of temporary nursing and other healthcare services, for total cash proceeds of $184.6 million. Grace's investment in CCS had been accounted for under the equity method. The sale resulted in a net pre-tax gain of $76.3 million ($32.1 million after tax), including the cost of Grace's purchase of interests held by third parties in CCS and the amount payable under CCS's phantom equity plan prior to the sale. The gain and the operations of CCS prior to the sale are included in "Income from discontinued operations, net of tax" in the Consolidated Statement of Operations. Certain contingent liabilities, primarily related to tax matters of CCS, have been retained by the Company and are included in "Liabilities subject to compromise" in the Consolidated Balance Sheet. In February 2001, Grace sold its remaining interest in CCS, recognizing a $7.7 gain that is included in "Other income" in the Consolidated Statement of Operations.

RETAINED OBLIGATIONS

Under certain divestiture agreements, Grace has retained contingent obligations that could develop into situations where accruals for estimated costs of defense or loss would be recorded in a period subsequent to divestiture under U.S. generally accepted accounting principles. Grace assesses its retained risks quarterly and accrues amounts estimated to be payable with respect to these obligations when probable and estimable.

The nature of these obligations includes: (1) future lease payments and other retained contractual commitments; (2) net asset settlements; (3) indemnities and other guarantees; and (4) contingent risks under pending or possible litigation.

During the year ended December 31, 2000, Grace revised its estimate of the outcome of certain retained obligations of discontinued operations

based on then current circumstances, and Grace recorded a net charge of $6.2 million ($4.1 million after tax). This charge was fully offset by a foreign pension premium refund and the reduction of previously established accruals for environmental remediation.

RESULTS OF DISCONTINUED

OPERATIONS (Dollars in millions)	2001	2000	1999
Loss from operations before taxes......................	$ --	$ --	$ (17.7)
Income tax provision	--	--	8.0
Loss from discontinued operations.................	--	--	(9.7)
Net gain on disposition of business	--	--	76.3
Provision for income taxes on dispositions of businesses.	--	--	(44.2)
Other charges, net of tax....	--	--	(16.7)
TOTAL INCOME FROM DISCONTINUED OPERATIONS....	$ --	$ --	$ 5.7
BASIC EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS....	$ --	$ --	$ 0.08
DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS	$ --	$ --	$ 0.08

5. INCOME TAXES

The components of income (loss) from continuing operations before income taxes and the related provision for income taxes are as follows:

INCOME TAXES - CONTINUING OPERATIONS

(Dollars in millions)	2001	2000	1999
Income (loss) from continuing operations before income taxes:			
Domestic.............	$ 67.1	$ (94.7)	$ 135.9
Foreign..............	75.2	75.0	67.5
	$ 142.3	$ (19.7)	$ 203.4
Provision for income taxes:			
Federal - current.....	$ (7.7)	$ (66.2)	$ (21.2)
Federal - deferred....	(27.5)	39.4	(26.4)
State and local - current	(3.2)	(20.0)	(3.5)
Foreign - current.....	(22.2)	(21.8)	(23.1)
Foreign - deferred....	(3.1)	(1.4)	1.0
	$ (63.7)	$ (70.0)	$ (73.2)

The components of income (loss) from consolidated operations before income taxes and the related provision for income taxes are as follows:

INCOME TAXES - CONSOLIDATED OPERATIONS

(Dollars in millions)	2001	2000	1999
Income (loss) from consolidated operations before income taxes:			
Domestic.............	$ 67.1	$ (94.7)	$ 168.9
Foreign..............	75.2	75.0	67.5
	$ 142.3	$ (19.7)	$ 236.4
Provision for income taxes:			
Federal - current.....	$ (7.7)	$ (66.2)	$ (40.7)
Federal - deferred....	(27.5)	39.4	(29.9)
State and local - current	(3.2)	(20.0)	(7.8)
Foreign - current.....	(22.2)	(21.8)	(23.1)
Foreign - deferred....	(3.1)	(1.4)	1.0
	$ (63.7)	$ (70.0)	$ (100.5)

At December 31, 2001 and 2000, the tax attributes giving rise to deferred tax assets and liabilities consisted of the following items:

DEFERRED TAX ANALYSIS

(Dollars in millions)	2001	2000
Liability for asbestos-related litigation.....................	$ 348.7	$ 387.1
Net operating loss/tax credit carryforwards..................	155.9	178.6
Deferred state taxes.............	105.3	99.7
Liability for environmental remediation....................	53.6	61.2
Other post-retirement benefits....	59.2	66.1
Deferred charges.................	50.2	54.4
Reserves and allowances...........	38.2	43.3
Research and development..........	40.0	32.6
Pension liabilities..............	84.8	15.9
Foreign loss/credit carryforwards.	23.3	10.0
Other............................	9.9	13.6
Total deferred tax assets.........	969.1	962.5

Asbestos-related insurance receivable	(106.9)	(123.1)
Pension assets..................	(85.8)	(79.8)
Properties and equipment.........	(56.3)	(52.1)
Other...........................	(58.3)	(62.3)
Total deferred tax liabilities....	(307.3)	(317.3)
Valuation allowance	(158.0)	(179.1)
Net deferred tax assets..........	$ 503.8	$ 466.1

The valuation allowance shown above arises from uncertainty as to the realization of certain deferred tax assets, primarily foreign tax credit carryforwards and state and local net operating loss carryforwards. Based upon anticipated future results, Grace has concluded that it is more likely than not that the balance of the net deferred tax assets, after consideration of the valuation allowance, will be realized. Grace expects to generate U.S. taxable income while in Chapter 11 that will enable it to utilize a portion of its net operating loss carryforwards.

At December 31, 2001, there were $284.8 million of net operating loss carryforwards, representing deferred tax assets of $99.7 million, with expiration dates through 2021; $15.0 million of foreign tax credit carryforwards with expiration dates through 2006; $6.6 million of general business credit carryforwards with expiration dates through 2011; and $34.6 million of alternative minimum tax credit carryforwards. At December 31, 2001, the aggregate tax effect of these net operating losses and credit carryforwards was $155.9 million.

The differences between the benefit (provision) for income taxes at the federal income tax rate of 35% and the Company's overall income tax (provision) benefit for continuing operations are summarized as follows:

INCOME TAX (PROVISION) BENEFIT ANALYSIS

(Dollars in millions)	2001	2000	1999
Tax (provision) benefit at federal corporate rate.........	$ (49.8)	$ 6.9	$ (71.2)
Change in provision resulting from:			
Nontaxable income/non-deductible expenses....	(1.6)	(1.6)	(0.6)
State and local income taxes, net of federal income tax benefit...............	(1.7)	(1.8)	(1.9)
Federal and foreign taxes on foreign operations............	1.3	1.5	0.5
Chapter 11 reorganization expenses.........................	(5.5)	--	--
Tax and interest relating to tax deductibility of interest on COLI policy loans (See note 15)..............	(6.4)	(75.0)	--
Income tax provision from continuing operations	$ (63.7)	$ (70.0)	$ (73.2)

Federal, state, local and foreign taxes have not been provided on approximately $186.7 million of undistributed earnings of certain foreign subsidiaries, as such earnings are expected to be retained indefinitely by such subsidiaries for reinvestment. The distribution of these earnings would result in additional foreign withholding taxes of approximately $14.8 million and additional federal income taxes to the extent they are not offset by foreign tax credits. It is not practicable to estimate the total tax liability that would be incurred upon such a distribution.

In 2001, Grace acquired three entities for a total cost of $84.4 million, which was paid in cash, as follows:

o In March 2001, Grace acquired The Separations Group, a manufacturer of chromatography columns and separations media.

o In March 2001, Grace's German subsidiary acquired the precipitated silicas business of Akzo-PQ Silicas.

o In July 2001, Grace's French subsidiary acquired Pieri S.A., a leading supplier of specialty construction chemicals in Europe.

These acquisitions were accounted for under the purchase method of accounting. Goodwill recognized in those transactions amounted to $23.6 million, which was assigned to the Davison Chemicals and Performance Chemicals segments in the amounts of $10.8 million and $12.8 million, respectively.

On March 1, 2001, Grace and Chevron Products Company ("Chevron"- a unit of ChevronTexaco, Inc.) formed Advanced Refining Technologies LLC ("ART") to develop and market hydroprocessing catalysts globally. ART conducts business through two distribution companies and one operating company. Grace has majority ownership interests in and controls both distribution companies; therefore, for financial reporting purposes, the assets, liabilities and results of operations of these entities are included in Grace's Consolidated Financial Statements. Grace does not exercise governance control over the operating company; therefore, it accounts for its interest under the equity method. Grace's equity in the net income or loss of the operating company is reported in "Other income" in Grace's Consolidated Statement of Operations. As of December 31, 2001, the accompanying Consolidated Balance Sheet includes a receivable from the operating company of $25.6 million, included in "Other current assets", and a payable to the operating company of $4.9 million, included in "Other current liabilities." As of December 31, 2001, the operating company had no third-party debt, and its liabilities are all working capital items. Its net assets equaled $6.5 million, and its cash balance was $10.1 million. ART has agreements with both Grace and Chevron under which each provides certain administrative and research and development services to ART. Administrative costs of $1.5 million and research and development expenses of $5.8 million are reflected in the unconsolidated financial statements of ART.

During 2000, Grace completed six acquisitions for cash consideration of $49.0 million and an obligation to pay future royalties of $19.6 million. All acquisitions were accounted for under the purchase method of accounting. The results of the operations of the acquisitions are included in the Consolidated Financial Statements from the respective date of acquisition.

In January 2002, Grace, through its Swedish subsidiary, acquired the catalyst manufacturing assets of Borealis A/S. This acquisition will be accounted for under the purchase method of accounting.

Pro-forma results of operations have not been presented because the effects of these acquisitions were not material on either an individual or aggregate basis.

7. OTHER INCOME

Components of other income are as follows:

OTHER INCOME

(Dollars in millions)	2001	2000	1999
Net gain on settlement of notes receivable	$ --	$ --	$ 18.5
Investment income....	5.4	6.4	2.1
Gain on sale of investments........	7.9	19.0	9.3
Net gain on dispositions of assets	1.8	5.5	13.6
Tolling revenue......	3.1	1.2	--
Interest income......	4.6	9.7	4.2
Equity in net income of affiliates.........	4.0	0.6	--
Other miscellaneous income	7.2	7.1	9.0
Total other income...	$ 34.0	$ 49.5	$ 56.7

8. COMPREHENSIVE (LOSS) INCOME

The tables below present the pre-tax, tax and after tax components of Grace's other comprehensive (loss) income for the years ended December 31, 2001, 2000 and 1999:

YEAR ENDED DECEMBER 31, 2001 (Dollars in millions)	Pre-tax Amount	Tax Benefit	AFTER TAX AMOUNT
Unrealized (losses) gains on securities:			
Change in unrealized appreciation during the year..................	$ (0.2)	$ 0.1	$ (0.1)
Reclassification adjustment for gains realized in net income................	(0.2)	0.1	(0.1)
Net unrealized (losses) gain	(0.4)	0.2	(0.2)
Minimum pension liability adjustments...........	(191.4)	67.0	(124.4)
Foreign currency translation adjustments	(24.6)	--	(24.6)
Other comprehensive (loss) income................	$ (216.4)	$ 67.2	$ (149.2)

YEAR ENDED DECEMBER 31, 2000 (Dollars in millions)	Pre-tax Amount	Tax (Expense) Benefit	After Tax Amount
Unrealized (losses) gains on securities:			
Change in unrealized appreciation during the year..................	$ (8.0)	$ 2.7	$ (5.3)
Reclassification adjustment for gains realized in net income................	(19.0)	6.6	(12.4)
Net unrealized (losses) gain	(27.0)	9.3	(17.7)
Minimum pension liability adjustments...........	(2.2)	(1.6)	(3.8)
Foreign currency translation adjustments	(34.1)	--	(34.1)
Other comprehensive (loss) income................	$ (63.3)	$ 7.7	$ (55.6)

YEAR ENDED DECEMBER 31, 1999 (Dollars in millions)	Pre-tax Amount	Tax (Expense) Benefit	After Tax Amount
Unrealized gains (losses) on securities:			
Change in unrealized appreciation during the year..................	$ 11.5	$ (4.0)	$ 7.5
Reclassification adjustment for gains realized in net income................	(9.3)	3.3	(6.0)
Net unrealized gains (losses)..............	2.2	(0.7)	1.5
Minimum pension liability adjustments...........	4.4	(1.6)	2.8
Foreign currency translation adjustments	(19.3)	--	(19.3)
Other comprehensive loss.	$ (12.7)	$ (2.3)	$ (15.0)

The decline in value of the U.S. and global equity markets coupled with a decline in interest rates, primarily in the second half of 2001, created a shortfall between the accounting measurement of Grace's obligations under its qualified pension plan for U.S. salaried employees and the market value of dedicated pension assets. This condition required Grace to record a minimum pension liability for this plan and to offset related deferred costs against shareholders' equity (deficit) at December 31, 2001 (see Note 19.)

COMPOSITION OF ACCUMULATED OTHER